

NEW ZEALAND DEFENCE SPENDING

Measuring Spending: New Zealand Model

New Zealand uses a unique accounting system to record and control public spending. This accrual financial management system, while widely used in the private sector, has not been adopted by other countries for use in the government sector. As a consequence, New Zealand records and reports its defence spending in a manner that is not directly comparable with other countries. The New Zealand method does provide perhaps the most accurate record of true public sector spending on defence of any country.

One feature of the accrual accounting regime is capital charge. Capital charge is a levy set at a rate by The Treasury on the value of all assets held by a department, currently at 11%. Capital charge recognises that a department's investment in capital does carry a cost that needs to be serviced through debt repayment charges. It also provides an incentive for department's to reduce their investment in capital investments such as equipment, land and buildings. Capital charge is recorded as expenditure and is not available to the department to spend, for instance, on new equipment, such as armoured vehicles, or to fund operating expenses, such as peacekeeping. Another unique feature of New Zealand's accrual accounting regime is the funding of capital acquisition from depreciation.

New Zealand's defence expenditure using this method is shown in Fig. 1.

Fig. 1

Expenditure	Total %	1997 \$NZ000
Personnel		
Costs	37.2	524,534
Operating		
Costs	24.7	348,793
Depreciation	12.8	108,424
Capital Charge	25.3	356,051
Total		1,409,802
% of GDP		1.44
Per Capita		\$392

Measuring Spending: NATO Model

New Zealand's unique approach to recording and reporting government spending makes the comparison of defence spending between different countries difficult.

The most widely used approach for measuring and comparing defence spending for different countries is the NATO model. The NATO model is used by the International Institute for Strategic Studies in London in its respected Military Balance. The Military Balance records defence spending for all states and is generally regarded as the international benchmark. Its approach was recently adopted by New Zealand's Parliamentary Select Committee of Foreign Affairs, Defence and Trade in its Interim Report into Defence Beyond 2000.

The NATO model measures military expenditure in cash outlays for operating, procurement and construction, and research and development. The NATO

accounting model does not record capital charge. The NATO definition includes the cost of pensions for serving personnel, as does the New Zealand model. Neither model includes the cost of pensions for veterans. This \$50 million cost is too small to distort statistics. NZ's defence expenditure using the NATO model is shown in Fig. 2.

Fig. 2

Expenditure	1997 \$NZ000
Operating Costs	870,532
Procurement/ Construction	198,404
Research & Dev.	799
Total	1,068,936
% of GDP	1.09
Per Capita	\$295

Defence Spending: Small Democracies

One technique for measuring defence spending is to compare a state's expenditure against that of others. Fig. 3 shows New Zealand's defence spending in comparison with other small democracies (using the NATO method for calculating expenditure). The information used in this table (for states other than New Zealand) is derived from the IISS Military Balance, 1998/99.

Fig.3

State	Population (million)	Total (US\$ bn)	GDP %
Australia	18.8	8.5	2.1
Belgium	10.1	3.8	1.5
Chile	14.7	2.1	2.7
Denmark	5.5	2.6	1.5
Ireland	3.6	0.77	1.05
Israel	5.9	7	7.2
Netherlands	15.6	7	1.9
New Zealand	3.6	0.577	1.09
Norway	4.4	3.2	2
Singapore	3.07	4.3	4.4
Sweden	8.8	4.6	2
Switzerland	7	3.8	1.5

Asia-Pacific Defence Spending

Fig. 4 shows New Zealand's defence spending in comparison with states of its region: the Asia-Pacific. This table also uses the NATO method for calculating expenditure and is derived from the IISS Military Balance.

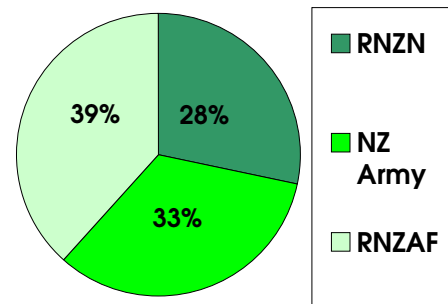
State	Total (US\$ bn)	GDP %
Russia	34.0	3.0
China	11.0	1.7
Japan	35.2	0.83
North Korea	2.4	13.0
South Korea	0.2	2.0
Taiwan	8.3	2.8
India	12.2	3.1
Canada	6.4	1.2
United States	267.0	2.4
Australia	8.5	2.1
New Zealand	0.577	1.09
Vietnam	0.950	3.9
Thailand	2.0	1.2
Malaysia	3.4	3.7
Singapore	4.3	4.4
Indonesia	1.7	0.8
Philippines	1.2	1.4

Who Gets What From The New Zealand Defence Budget

The New Zealand single Services (Royal New Zealand Navy, New Zealand Army and Royal New Zealand Air Force) are allocated similar but not equal shares of the defence pie. Fig. 5 shows that the RNZAF receives \$353 million, the New Zealand Army \$309 million and the RNZN \$262 million.

Fig. 5

New Zealand Defence Spending by Service 1998/99



Service Resource Allocation

Each of the single Services allocate their budgets in different ways. In the period 1991/92 - 1998/99, the RNZN spent \$1,118 million of capital, the New Zealand Army \$136 million and the RNZAF \$513 million. Fig. 6 shows the relative share of the capital budget by single Service.

Each service allocates a different proportion of their budget to personnel. The New Zealand Army allocated \$1,717 million from 1991/92 to 1998/99, the RNZN allocated \$951 million and the RNZAF \$1,226 million during this period. Fig. 7 shows the relative share of the personnel budget by single Service.

Fig. 6

Capital Project Spending by Service 1991/92-1998/99

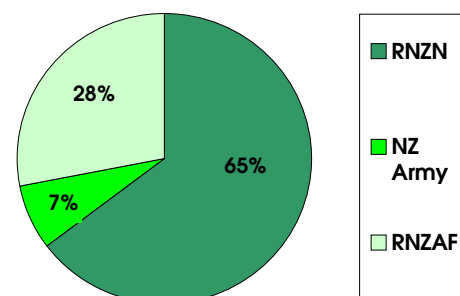


Fig. 7

Personnel Project Spending by Service 1991/92-1998/99

